



IBA Review of Mayor's 2009-2013 Five-Year Financial Outlook



Analysis by Topic Area

- General Fund Revenue
- General Fund Expenditures
- Future Committed Expenditures
- Eight Significant Areas
- Corrective Actions
- Risks to Outlook
- Items not Considered in Outlook
- Additional Suggestions for Future Five Year Financial Outlook

Overarching Analysis based on:



- Underlying assumptions for all categories
- Consistency with goals depicted in previous year's Outlook
- Accuracy of data provided
- Completeness and reliability of information
- Consideration of “risks” or changing events
- Accurate portrayal of proposals

SUMMARY REMARKS ON OUTLOOK



- Mayor has continued strong focus on funding significant areas critical to future fiscal health
- General Fund Revenues based on reasonable assumptions; discussion of recessionary impacts would have been valuable
- General Fund expenditures reflect reasonable growth assumptions plus \$29.3M over five years for new facilities' O&M

SUMMARY REMARKS (con't.)



- No new significant solutions emerged for addressing future deficits; across-the-board percentage reductions lack analysis of priorities and/or service impacts
- Some positive corrective actions from last year (reengineering and managed competition) not included in this outlook
- Fewer corrective actions contemplated this year than last year
- Information less comprehensive than last year, more difficult to evaluate assumptions

Eight Significant Areas Summary



Outlook Topic	Agree With Assumptions	Inaccurate/ Inconsistent Info	More Info Needed	Notes
Pension	Yes	✓		See Outlook Table III - portrays money above ARC being paid
General Fund Reserves	No	✓	✓	Need assumptions about significant depletion of 08 reserves
Deferred Maintenance	Neutral		✓	Need information about magnitude of problem
OPEB	No	✓		See Outlook Table III -not consistent with last year's policy
Storm Water Compliance	No	✓	✓	Does not match adopted URMP
ADA Compliance	Neutral		✓	Need information about magnitude of problem
Liability Reserve	No	✓		Unclear as to estimated reserve balance at 08 year-end
Workers' Comp Reserve	Yes			

Corrective Actions Summary



Outlook Topic	Agree with Assumptions	Inaccurate/ Inconsistent Info	More Info Needed	Notes
Leveraging City Assets	Neutral		✓	Need status of progress of current sales & proposed new properties to be sold
Health Care Reform	Neutral		✓	New to Outlook but included in 2008 budget
Proposition 1B Funding	Yes			
Special Promotional/TMD	Yes		✓	Insufficient detail on how \$1million in 2009 is derived. Unclear what happens in future years.
Budget Reductions	Neutral		✓	Magnitude of deficit uncertain; service implications unknown

ANALYSIS OF RISKS TO FIVE YEAR OUTLOOK



A discussion of “risks” to assumptions can provide additional insight to a multi-year financial forecast

RISK EXAMPLES:



- Recessionary impacts on City revenues
- State Budget deficit
- Real estate market impacts on land sales
- Unpredictable legal fees and liability costs
- Wildfire cost reimbursements – timing/uncertainty

ITEMS NOT CONSIDERED/ MENTIONED IN OUTLOOK– EXAMPLES:



- Reengineering and managed competition
- Prop. G (15-year pension amortization)
- Future significant unfunded needs of departments
- Mitigations for Refuse Disposal and Recycling Funds

ITEMS NOT CONSIDERED/ MENTIONED (con't.)



- Chargers relocation
- Civic Center Redevelopment
- Central Library
- Additional funding for wildfire prevention and preparedness

ADDITIONAL SUGGESTIONS FOR FUTURE OUTLOOKS BASED ON:



- Review of other municipal forecasts
- Review of Comptroller's Analysis of NYC Mayor's Five Year Forecast



EXAMPLES:

- Provide current year baseline data (FY 2008 data plus FY 2009-2013)
- Identify major facilities and expenditures in “Future Committed Expenditures”
- Discuss community service levels and goals for the future
- Explain policy differences between previous outlook and new outlook



EXAMPLES (con't.):

- Provide a brief update on the progress of existing corrective actions that continue into the future
- Define magnitude of the problem being addressed (ADA, Deferred Maintenance, etc)
- Provide review of other funds (water, wastewater, etc.)



IBA Review of the Fiscal Year 2009 Proposed Budget

Major Sections



- Mayor's FY 2009 Budget Approach and Strategy
- FY 2009 Significant Funding Areas
- FY 2009 Budget Balancing Actions
- Comparison of Budget to Council Priorities Resolution
- Comparing FY 2008 Budget and Five-Year Outlook to FY 2009 Budget
- General Fund Revenues
- City-wide Issues
- Department Reviews
- Options for Revisions to FY 2009 Proposed Budget

IBA Review and Analysis of Mayor's Proposed Budget



- Policy analysis
- Technical budget accuracy
- Best budgeting and financial practices
- Legal requirements
- Clarity and transparency for the public
- Documentation and justification of proposals
- Potential community and employee impacts
- Legislative and community priorities
- Consistency with the Outlook

Mayor's FY 2009 Budget Approach and Strategy (1)



- Addresses the City's most significant financial obligations
- Five-Year Outlook has been closely adhered to
- IBA continues to support Mayor's overarching goals
- IBA raises several technical and practical issues

Mayor's FY 2009 Budget Approach and Strategy (2)



- Budget balanced largely through position reductions
- Mayor has acknowledged negative impacts on service delivery (Park and Recreation, Library)
- Cumulative effect of past years' reductions need to be considered

Mayor's FY 2009 Budget Approach and Strategy (3)



- No new or significant ongoing budget balancing strategies
- No new savings resulting from BPR and Managed Competition
- Use of one-time revenues
- New facilities funded through cuts in existing facilities

Mayor's FY 2009 Budget Approach and Strategy (4)



- Performance measures and targets provided for FY 2007, 2008 and 2009
- Adds valuable information to the budget process
- Information for new measures will improve as more data are available
- New “Service Impacts” section valuable, suggest greater specificity in future

Mayor's FY 2009 Budget Approach and Strategy (5)



- Budget documents discuss “The City Strategic Plan”
- Plan led to departmental goals, objectives and performance measurements
- Development of a vision for the future is vital and should include the City Council and the public

Mayor's FY 2009 Budget Approach and Strategy (6)



- Mayor has presented a balanced budget in challenging environment
- State budget deficit could still threaten City's resources
- May not know impacts until after FY 2009 final decisions
- Contingency plans are needed to address this issue

Mayor's FY 2009 Budget Approach and Strategy (7)



- City faces structural budget deficit
- Year-by-year budget balancing actions will not fix a structural deficit
- Structural solutions are needed

Major General Fund Revenues



- Property tax, sales tax, TOT, franchise fees
- Growth rates unchanged from Five-Year Outlook, despite weakening economy
- Overall, some revenues do reflect slower growth than in FY 2008
- However, projections may still be too aggressive

General Fund Expenditure Categories



- IBA reviewed the six expenditure categories for General Fund and total City budget
 - Salaries & Wages
 - Fringe Benefits
 - Supplies & Services
 - Information Technology
 - Energy & Utilities
 - Equipment Outlay
- Provided detailed explanations for each category and comparisons to FY 2008 Budget and Five-Year Outlook

IBA Position on Significant Funding Areas



Pension

- \$161.7M FY 09 funding
- IBA supports
- Supports ARC funding which reflects no negative amortization

IBA Position on Significant Funding Areas



General Fund Reserves

- \$6.0M FY 09 funding
- IBA generally supports
- Support 6.5% goal, question need for additional \$6.0M to achieve it

IBA Position on Significant Funding Areas



Deferred Maintenance

- \$77.5M Financing, \$6.8M Land Sales, \$21.2M Prop 1B, \$3.6M Debt Service
- TOTAL \$101.9M in FY 09 funding
- IBA supports as “bridge funding” until City can access public markets
- Financing approved by Council 4/22/08. We note these are multi-year projects and all won't be completed in FY 09

IBA Position on Significant Funding Areas



Retiree Health

- \$50.0M in FY 09 funding
- IBA supports
- Support Pay Go and trust fund

IBA Position on Significant Funding Areas



Storm Water

- Funding increased from \$48.5M in FY 08 to \$61.0M for FY 09
- IBA generally supports
- Question ability to fully expend available funding
 - \$16.7M expected to be carried over from FY 08 plus \$12.5M in new funds
- Continue to recommend new dedicated funding source

IBA Position on Significant Funding Areas



ADA Compliance

- \$10.0M in FY 09 funding
- IBA supports
- Question capacity to complete projects in FY 09, reliant on achieving land sales

IBA Position on Significant Funding Areas



Workers Compensation Reserves

- \$5.0M in FY 09 funding
- IBA supports 15% goal of outstanding claims
- Budget may provide funding in excess of 15% goal by \$1.25M

IBA Position on Significant Funding Areas



Public Liability Reserves

- \$10.0M in FY 09 funding
- IBA supports
- Consider increase to funding to ensure reserves are allowed to build given recent expenditure activity in FY 2008

IBA Position on Budget Balancing Actions



Position Reductions

- Net \$10.6M FY 09 reduction, 127 positions
- More information needed
- Impacts of service reductions need to be carefully considered
- Council needs to hear from community during hearing process

IBA Position on Budget Balancing Actions



Redevelopment Agency (CCDC) Repayment

- \$5.0M in FY 09 funding
- IBA supports
- IBA proposes two options for increasing repayment level for FY 09
 - \$5.0M to \$7.5M
 - \$5.0M to \$10.0M

IBA Position on Budget Balancing Actions



FEMA Reimbursement

- \$8.0M FY 09 funding

Prop 1B

- \$21.2M assumed in state funding for FY 09 for street-related funding

IBA Position on Budget Balancing Actions



One-time revenue from Real Estate Assets

- \$16.8M in FY 09 funding
- IBA supports
- Tied to one-time deferred maintenance/ADA needs

IBA Position on Budget Balancing Actions



Transfers from Special Promo

- \$5.0M allocated to GF in FY 09 for promotion-related expenses
- IBA supports conceptually
- Would not be needed if Redevelopment Agency Repayment is budgeted directly in the General Fund

Citywide Issues

BPR/Managed Competition



- Extensive discussions on both processes have taken place
- Concerns about process issues, role of Council, delays in implementation
- Process changes being considered to facilitate timely implementation

Citywide Issues

BPR/Managed Comp. (con't.)



- No new significant BPR savings in FY 2009 budget
- Savings from Managed Competition anticipated FY 2010
- The results of pre-competition assessments for 16 functions expected soon
- \$900,000 requested in FY 2009 Budget for Managed Competition Consultant

Citywide Issues

Anticipated Debt Financing



- CFO estimates financial statements will be current and credit ratings could be restored by July 2008
- Three major financings anticipated:
 - Pension (\$30-50 million – June 2008)
 - Water (approx. \$550 million – late 2008)
 - Wastewater (\$370+ million – late 2008)



- City debt affordability ratios under Debt Policy limits and rating agency guidelines.
- Long-term interest rates relatively low and stabilizing after recent market volatility

Citywide Issues

User Fees



- No User Fee adjustments included
- IBA Report 08-20, “Need for Comprehensive Annual User Fee Review as Part of the Annual Budget”:
 - Identify full cost of services
 - Determine cost recovery rates
 - Develop “target” cost recovery policies
- Mayor has committed to complete User Fee review by summer of 2008, cost recovery policy by January 2009, incorporation into FY 2010 budget process

Options for Revisions to FY 2009 Proposed Budget



- Identified potential changes which could result in new resources/reallocation of existing resources
- More conservative approach in revenue assumptions may be warranted
- Identified unmet needs and service restorations for consideration
- No firm recommendations at this time



Potential Resource Increases/Reallocations

1. Increase Redevelopment Agency (CCDC) Repayment
2. Reevaluate Reserves Allocation Required to Achieve 6.5% Goal
3. Review Equipment Outlay Allocations for Possible Reduction
4. Resolution of Booking Fees Issue

Potential Resource Increases/Reallocations (con't.)



5. Reduction to Worker's Compensation Fund Reserves Allocation
6. Transfer of Environmental Growth Fund Balance to Offset Appropriate General Fund Expenses
7. Discuss Comptroller's Need for Temporary Help
8. Review of Citywide Election Costs



Potential Resource Increases/Reallocations (cont.)

- 9. Tobacco Settlement Revenues
- 10. Seized and Forfeited Assets
- 11. Potential savings attributable to Annual Audits
- 12. Release of A-List Project Funds
- 13. Potential Storm Water Savings

Potential Revenue Decrease



1. Results of IBA and CFO Analyses of Revenue Assumptions, could mean revenue reductions in May Revise and/or IBA Final Report

Priority Unmet Needs/ Service Restorations



1. Park and Recreation Service Restorations
2. Library Service Restorations
3. Graffiti Program Restoration
4. Landslide Costs
5. Equal Opportunity Contracting Reforms
6. Homeless Shelter Funding

Priority Unmet Needs/ Service Restorations (con't.)



7. Additional Audit Staff
8. Mills Act Workload
9. Non-Mayoral Departments Not Considered by Mayor (IBA, City Attorney)
10. Preventative Maintenance Staffing Reductions
11. Advanced Water Treatment Demonstration Project

Conclusion



- No firm recommendations at this time
- Further evaluation and discussion needed
- Note of caution:
 - Revenues may need to be adjusted downward in May
 - Any new resources identified may be needed to offset revenue reductions and/or state cuts
 - Services, if restored, likely to be the first to go if City faces state cuts
- IBA Final Report with recommendations will be issued on May 30, 2008



Summary of Mayor's May Revise May 14, 2008

Mayor's May Revise, May 14, 2008



- Reduced sales tax, property tax, TOT and vehicle license tax revenues by total of \$5.1M
- Reduced interest earnings by \$3.0M
- Restored 3 District Managers, added Brush Management support and O&M for Carmel Valley Skate Park in Park and Recreation

Mayor's May Revise (con't.)



- Numerous technical adjustments also made
- Rebalanced budget through use of Environmental Growth Fund, Seized and Forfeited Assets fund, some one-time revenues and technical adjustments



Next Steps in the Fiscal Year 2009 Budget Process



Next Steps in Budget Process

- **Tuesday, May 20**
 - Councilmembers' budget priority memos submitted to IBA
- **Friday, May 30**
 - IBA Final Report released on Modifications to the FY 2009 Budget
- **Wednesday, June 4**
 - Budget and Finance Committee Final Budget Decisions
- **Monday, June 9**
 - City Council Final Budget Decisions



Next Steps in Budget Process (con't.)

- **Wednesday, July 9**
 - Budget and Finance Committee review of Appropriations Ordinance
- **Monday, July 21**
 - First Council Hearing on Appropriations Ordinance
- **Monday, July 28**
 - Second Council Hearing and Adoption of Appropriations Ordinance